



## Calhoun: The NPS Institutional Archive

---

Faculty and Researcher Publications

Faculty and Researcher Publications

---

2007-11

# Pharmaceutical Profits and Health Are Inconsistent? It Just Ain't So!

Henderson, David R.

---

The Freeman: Ideas on Liberty, November 2007  
<http://hdl.handle.net/10945/40240>



Calhoun is a project of the Dudley Knox Library at NPS, furthering the precepts and goals of open government and government transparency. All information contained herein has been approved for release by the NPS Public Affairs Officer.

**Dudley Knox Library / Naval Postgraduate School**  
**411 Dyer Road / 1 University Circle**  
**Monterey, California USA 93943**

<http://www.nps.edu/library>

---

# Pharmaceutical Profits and Health Are Inconsistent? It Just Ain't So!

BY DAVID R. HENDERSON

---

In a critical review of Richard Epstein's book *Overdose: How Excessive Government Regulation Stifles Pharmaceutical Innovation*, Arnold Relman (*The New Republic*, July 30) criticizes drug companies for their hypocrisy. Contrasting the companies' message to stockholders with their message to the larger world, he quotes Pfizer President Jeffrey Kindler's statement that his goal is "to create and sustain value for shareholders" and the company's advertising slogan, "Working for a healthier world." Relman writes, "To hear these firms tell it, making money is hardly of interest to them, because their primary concern is the public's welfare."

Although Relman has written about the drug industry for years, this statement shows a profound misunderstanding of how profits in that industry, or in any industry, work. Contrary to what Relman says, the main way for a drug company to make money is to promote the health of its customers.

But don't drug companies make money off our sickness? Yes, just as the food industry makes money off our hunger. But the food industry doesn't make money by keeping us hungry; it makes money by feeding us. Similarly, drug companies and other health-care providers make money not by keeping us sick, but by making us *well*.

One day in the fall of 1995 I got very sick quickly. I was unable to keep liquids in my body, and I lost almost ten pounds in less than 24 hours. My wife took me to the Community Hospital of the Monterey Peninsula. There I rested in a quiet private room in a clean, wonderfully comfortable bed, while an intravenous device

pumped about eight pounds of fluid into my body. I slept 22 of the next 24 hours. The bill for one day, slightly over \$2,000, was mostly covered by insurance. But had I been required to pay the whole amount out of my own pocket, I would have gladly done so. My doctor later told me that every cell in my body had been damaged and that, had I not gone to the hospital that evening, I might have died. For the next few months, whenever I drove by that hospital I cheered. The men and women working there didn't know me,

but spent their best energy making me well and, maybe, saving my life. However much they like helping people heal, they would not have been there if someone hadn't paid them. They made money off my sickness. Bless them.

The insight that sellers make money by giving customers what they want is not new. One of the most famous quotes in Adam Smith's *The Wealth of Nations* is his statement that it's not from the benevolence of the butcher, the baker, or the brewer that we expect

our dinner, but from their regard for their own self-interest. It's striking that more than two centuries after this insight became famous, a major political magazine that regards itself as a sophisticated commentator on the issues of the day publishes an article that parades such economic ignorance.

---

*David Henderson (davidrhenderson1950@gmail.com) is a research fellow with the Hoover Institution and an economics professor at the Graduate School of Business and Public Policy at the Naval Postgraduate School. His latest book, coauthored with Charles L. Hooper, is Making Great Decisions in Business and Life (Chicago Park Press, 2006).*

I would like to live to age 100 and to be reasonably healthy up to that age. I would like my friends to do so also. That's unlikely, but what would make it more likely is for drug companies to figure out cures for the diseases that would otherwise kill many of us: heart disease, cancer, diabetes, Parkinson's, and Alzheimer's, to name a few. What motivates drug companies is the large revenue they can earn by developing drugs that cure diseases and save lives. Think about your family. I bet you can think of family members who were seriously ill who could have avoided illness had these innovations existed earlier. It's true of my family. My father had polio in both legs in 1944. My sister had polio in 1952. Unfortunately for them, the drug company Parke-Davis was unable to produce high-quality Salk vaccine until February 1954. Now we take for granted that we won't get polio—and that's thanks to a drug company that wanted to make money for its shareholders and thanks to some scientists who wanted to make money for themselves and their families.

Because of his distrust of the profit motive, Relman wants the government to continue regulating and, indeed, regulate more, the actions of drug companies. What is his argument for regulation? Nowhere in his lengthy review of Epstein's book on drug-industry regulation does Relman actually make an argument. Instead, he settles for quoting authority. Take Epstein's claim that Food and Drug Administration (FDA) regulations keep drugs off the market, sometimes for years and sometimes forever. Relman dismisses this argument rather than refuting it. Relman writes:

But this "logjam" [preventing new drugs] is pure conjecture, because there is nothing to support such a notion. There was once a problem with delays in reviewing and approving new drugs, but much has been done through legislation and administrative reforms at the FDA to expedite and to simplify the process of drug approval. The FDA now moves with greater alacrity than most analogous agencies in advanced countries.

---

The view that the profit motive and health of customers are antithetical is simply incorrect.

---

Notice Relman's language. Epstein's idea is not an idea but a "notion." And Relman regards Epstein's idea as pure conjecture rather than something that has been backed up by logical argument and ample evidence. The argument for Epstein's claim is straightforward: all else equal, the more requirements the government puts in the way of drug development, the less development will occur. By starting, in 1962, to require drug companies to show that a drug is effective (the requirement that they be safe has existed since 1938), the FDA added to the delay between innovation and availability to consumers. The evidence is also ample. In 1974, University of Chicago economist Sam Peltzman estimated that the efficacy requirement added a minimum of two years to the drug-approval process. Later studies by economists and pharmacologists found similar results. (See [www.fda.gov/oc/ohrt/ohrt.html](http://www.fda.gov/oc/ohrt/ohrt.html).)

### Who Decides?

Some might argue that it's worthwhile to delay drugs by years to make sure they're effective. But ask someone who's dying whether that's a worthwhile tradeoff.

Relman writes, "Almost everyone familiar with our health care system—including the leaders of the industry!—agrees that prescription drugs should be regulated." So let's get this straight. Relman seems to totally distrust the effect of the profit motive on drug companies' behavior. Somehow, though, we're not supposed to question one part of the drug companies' behavior, their support for regulation of their own industry. But why wouldn't they support regulation for the same reason airline executives supported regulation of their industry—to restrict competition? Relman ignores this question.

The view that the profit motive and health of customers are antithetical is simply incorrect. Drug companies look especially good when one considers the regulatory alternatives. Given a choice between trusting a government agency whose employees are paid the same whether or not they approve drugs or trusting a drug company that makes money by making me healthy, I would choose the latter.

